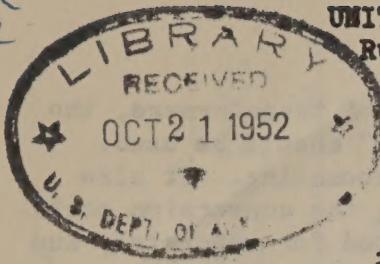


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UNITED STATES DEPARTMENT OF AGRICULTURE  
Rural Electrification Administration  
Washington 25, D. C.

AA 8

February 1, 1952

ACCOUNTING AND AUDITING MEMORANDUM 8

SUBJECT: Accounting Procedure for the Conversion of Small Transformers to Larger Capacities

This memorandum, representing a revision of Finance Memorandum 1, dated May 18, 1950, is intended to further clarify the accounting in connection with the conversion of small transformers to transformers of a larger capacity.

We believe such conversion is, in effect, the abandonment of an inadequate transformer, which has a certain salvage value, and the acquisition of a new transformer. Therefore the accounting should correspond to the treatment accorded the retirement of any line transformer and the acquisition of a new transformer.

The accounting for the conversion of small transformers to those of larger capacities will be as follows:

1. Retire the inadequate transformer, including the cost of installation, (this pertains solely to the bare transformer) with the total installed original cost being charged to Account 144, Retirement Work in Progress, and credited to Account 358, Line Transformers.
2. The case or tank and any other parts that are reusable in the conversion should be priced at current value, with this credit going to Account 144, Retirement Work in Progress, and the charge to Account 100.32, Construction Work in Progress -- Force Account.
3. The balance in Account 144, Retirement Work in Progress, incident to each group of converted transformers, should be transferred to Account 250.5, Reserve for Depreciation of Distribution Plant.
4. When the converted transformers are returned from the manufacturer the cost of conversion should be charged to Account 100.32, Construction Work in Progress -- Force Account. The cost of conversion plus the value of salvaged parts utilized in the new transformer should then be transferred to Account 358, Line Transformers. Accounting for the subsequent handling of converted transformers should follow the procedure established for new transformers.

For properly recording all costs relating to the conversion of transformers, the attached REA Form DS-268, "Transformer Conversion Work Order" should be used. This form meets all ordinary requirements with respect to accounting. It also serves as a basis for approval to secure loan funds covering the conversion costs. Any salvage not reusable in the conversion should be accounted for separately and will not be entered on Form DS-268.

Two copies of this form should be prepared and held at the borrower's office for review by the field engineer for conformance to REA engineering and cost standards.

After review by the field engineer, if approved, both copies of the work order will be marked "approved" and the borrower should forward one copy to the proper section office of the Accounting and Auditing Division as the basis for advance of loan funds.

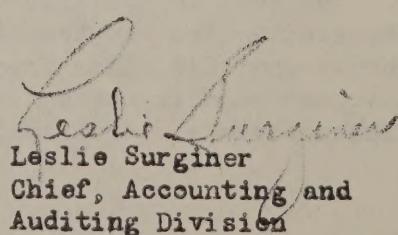
On receipt of the copy of work order as approved by the field engineer, the section office of the Accounting and Auditing Division enters required data on budget control and subsidiary records to encumber the loan funds for the approved conversion.

The field auditor, at the time of audit, will review such conversion work orders for final REA approval through verification of costs and accounting distribution. If the work orders are disapproved, the field auditor will advise the borrower who will prepare revised or supplemental work orders for the adjustment of accounting or loan fund advances as necessary. Such revised or supplemental work orders should be clearly designated and resubmitted to the field engineer. Upon obtaining such approval the corrected work order should be forwarded to the section office of the Accounting and Auditing Division.

All transformers of the same size and type should be grouped together on the form wherever possible; for instance, all  $1\frac{1}{2}$  KVA conventional transformers would be in one group, all 3 KVA self-protected would be in another group, etc. with separate groups being established for other sizes and types involved.

We recommend that all converted transformers be listed on a separate work sheet showing, among other things, the manufacturer, type (i.e. conventional, self-protected, etc.) and serial number. This sheet should be attached to the copy of the work order retained by the borrower and should be useful in supporting the retirement of the inadequate transformers and in posting to the transformer record cards.

Attachment

  
Leslie Surginer  
Chief, Accounting and  
Auditing Division



